Atlantic Pilotage Authority

Administration de Pilotage de l'Atlantique

910- 2000 Barrington Street
Halifax, NS B3J 3K1

Summary of 2012 – 2016 Corporate Plan

Canada

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Summary of 2012-2016 Corporate Plan

EXECUTIVE SUMMARY

Background

The first pilots in Atlantic Canada were undoubtedly the Mi'kmaq. They navigated their sea canoes through the coastal waters of Atlantic Canada, travelling in the Bay of Fundy, the Northumberland Strait, and across the Cabot Strait between the islands of Cape Breton and Newfoundland. The first European observers of their skill believed that they used instinct for guidance, but it surely had more to do with their local knowledge of currents, tides, and navigational hazards than instinct. While modern propulsion systems, electronic equipment and navigational aids have changed the way ships are operated at sea since those ancient times, the employment of a marine pilot with extensive local knowledge and expert ship-handling skills is as essential as ever to safely enter harbours and ports and efficiently put ships alongside their berths.

The Atlantic Pilotage Authority (APA) provides a valuable and necessary service to the marine community in Atlantic Canada. The highly skilled marine pilots employed by the APA make a vital contribution to the protection of the environment, to safeguarding the lives of mariners, and to preserving and promoting the economic wellbeing of ports in Atlantic Canada.

Ships have become larger and more complex, while the number of crewmembers on the ships has decreased. In today's intensely competitive world, there are increasing demands for ships to operate in more severe weather conditions than in the past. A reliable and responsible marine pilotage system plays a significant role in allowing Canadian business to remain competitive in the global marketplace.

A great variety of vessel types and sizes continue to call at ports within the Atlantic Region. The safety record maintained by the Atlantic Pilotage Authority speaks well of the professionalism and commitment of APA pilots. The focus of the Authority continues to be to meet the requirements of the customers in each port at a reasonable cost, while remaining financially self-sufficient.

The APA consults widely with the shipping industry and stakeholders on both operational and financial issues. Consultations have included shipping agents, ship owners, port officials, and other stakeholders. The APA has established committees of stakeholders in many ports, and also consults regularly with the Shipping Federation of Canada and the Canadian Shipowners Association. The Authority takes advice from its stakeholders, and greatly values the open lines of communications that these consultations provide.

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The Authority has adopted International Financial Reporting Standards (IFRS) effective January 1, 2011. The introduction of these Standards has impacted both the operating statements and the balance sheet of the APA, with the major impact being in the methodology of applying amortization to pilot boats. The statements presented herein are presented using IFRS.

Operating Budget

The Authority is operating in a positive financial position in 2011, and the plan contained herein is designed to continue that trend. The return expected to be achieved in 2011 is $172 thousand greater than the budgeted figure. The revisions of the tariff structure undertaken in recent years with the support of customers have allowed the APA to be less vulnerable to fluctuations in traffic patterns and fuel prices. Upon reviewing the tariff structure for 2012, the Authority will be implementing tariff amendments in five ports that will provide a 1.40% increase in overall revenue. The following chart indicates the actual results for 2010, the anticipated results for 2011, and the budgeted statement for 2012-2016.

STATEMENT OF OPERATIONS

(In Thousands of Dollars)				IFRS PLAN			
	ACTUAL 2010	OUTLOOK 2011	BUDGET 2012	2013	2014	2015	2016
TOTAL INCOME	21,584	22,041	22,255	22,870	23,372	23,839	24,316
TOTAL EXPENSES	19,208	20,148	20,862	21,457	21,844	22,288	22,746
NET INCOME	$ 2,376	$ 1,893	$ 1,393	$ 1,413	$ 1,528	$ 1,551	$ 1,570

The New Pilot Boat Surcharge is included in the total income above, but is a temporary surcharge with an end date of December 31, 2011. While the revenues derived from the charge is properly reflected in the Net Income, the Authority has not considered them as a factor when establishing the target rate of return in each year because of their temporary nature and specific intent.

The Authority is seeking approval for the continuation of the $1.5 million operating line of credit for 2012.

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Capital Budget

The construction of new pilot vessels for Halifax, NS and Saint John, NB continues, with both vessels scheduled to enter service during 2012. This is an extension of the pilot boat replacement program that produced two vessels for Placentia Bay, both of which entered service in 2007. Approval of the capital expenditure for the new vessels was requested and received in the Corporate Plan submitted for 2011-2015. It is anticipated that the capital expenditure during 2012 will be $3.272 million.

Other capital spending will be required on existing pilot boats, pilot boat wharves, leasehold improvements to the head office, and to upgrade computer systems and software. The total of this spending will be $721 thousand, with $556 thousand of that being for pilot boat refits. I

Budget 2010 and Budget 2011

The Authority has committed to respecting the spirit and intent of the cost containment measures announced in Budget Plan 2010. Discretionary spending has been frozen at the level of the 2010 budget. Increases in operating expenditures have been offset by a corresponding or greater increase in revenue.

The Authority is a non-appropriated Crown, and therefore not subject to the formal Strategic and Operating Review (SOR) announced in Budget 2011. However, the APA has followed the spirit and intent of the SOR by undertaking a self-review to seek operational efficiencies, using the criteria suggested by Treasury Board Secretariat as a guide.

Risk Management

The Authority completed a preliminary review of non-compulsory ports in Nova Scotia in 2010 in order to identify ports that will require the further scrutiny of a Pilotage Risk Management Methodology (PRMM) study. Four ports have been identified for further consideration. A similar review for non-compulsory ports in New Brunswick was carried out in 2011. Based on this report, the Authority determined that a PRMM should be conducted for the port of Belledune. This study will be completed by the end of 2011 and presented to the Members of the Authority for consideration. In 2012, the Authority will address those ports that were identified for further study in Nova Scotia. In the future, a preliminary review will also be conducted on the non-compulsory ports in Newfoundland and Labrador.

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The Management and Board of the Authority completed an Enterprise Risk Management process during the year. Twenty-three risks were identified, with 11 of those risks being considered significant enough to warrant close monitoring. The monitoring of various risks has been assigned to various Board committees.

The Authority has continued to work closely with the Canadian Marine Pilots Association to promote the requirement for weather buoys to be established in Halifax, Saint John, and the Strait of Canso. These devices would offer accurate and timely information to pilots, industry, fishers, and recreational boaters in these areas. This initiative would also benefit many public sector users such as Environment Canada, Canadian Coast Guard, Department of Fisheries and Oceans, Transport Canada, Canadian Hydrographic Service, the Port Authorities, and the APA. They would be a significant factor in reducing risk for all of these parties.

New Compulsory Pilotage Areas

It is the APA's intention to create a new compulsory pilotage area for the water approaches to the St. Croix River in New Brunswick, pursuant to a Pilotage Risk Management Methodology (PRMM) study conducted in 2006. The process of amending regulations to create the new compulsory pilotage area has been initiated, but will require an international agreement as it encompasses international waters. This situation has been referred to the Marine Safety branch of Transport Canada and Foreign Affairs and International Trade Canada (DFAIT) for assistance. Because of the limited amount of traffic in this area, it is not expected to have a significant financial or operational impact on the Authority. Due to the uncertainty regarding the timing of the regulatory amendments and the minimal overall impact on the APA, this area has not been included in the projections.

Corporate Governance

Several years ago, the APA was the first Pilotage Authority in Canada to carry out an internal audit. In early 2011, the Audit Committee received a review from the internal auditors with respect to pilot boat maintenance procedures and practices. A further internal audit project will be conducted in 2011-2012 by an independent outside party on policies and procedures in place for incident management and business continuity in the event of a significant accidental event.

The Board and management of the APA continued the Directional Planning process that was initiated in 2007. This process provides long term planning, and is reviewed and

updated each year. The fundamental principles of the Directional Plan have been incorporated into this Corporate Plan.

The Board of the Authority continues its mandate of ensuring good corporate governance. During 2011, the Audit, Pilot Boat, PRMM, Finance, Administration, and Planning (FAP), and Executive Committees were active, and the recommendations from these committees have been instrumental in reaching sound decisions and providing essential strategic direction.

The Board has outlined strategic directions in the following areas:

- Governance;
- Quality of Service;
- Safety of the Environment;
- Financial self-sufficiency;
- Technology;
- Human Resources; and
- Completion of the CTA recommendations.

Continuing focus upon these strategies enables the Atlantic Pilotage Authority to support and sustain crucial pilotage service within the Atlantic Region.

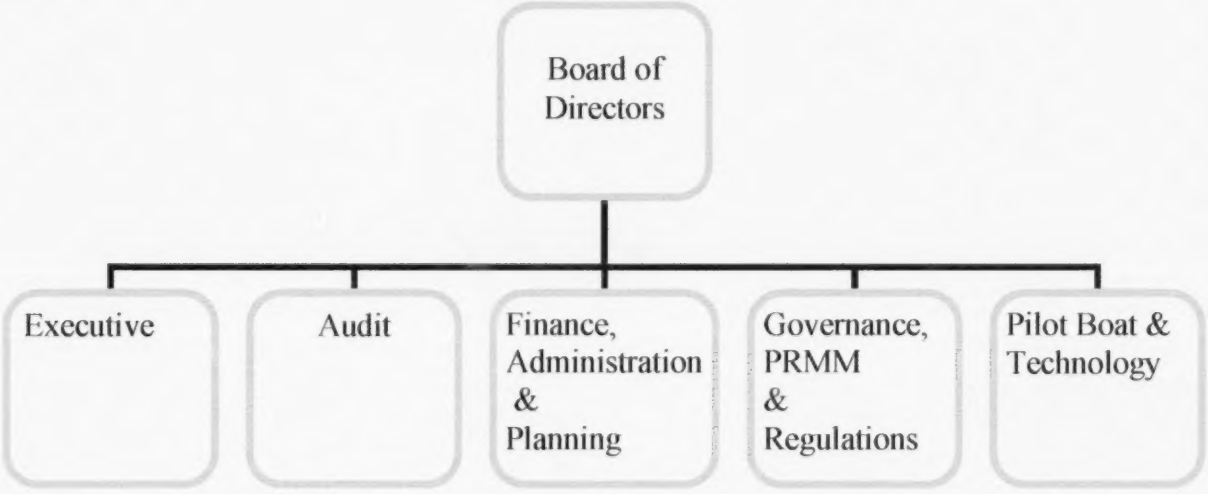
The Atlantic Pilotage Authority is well positioned to continue offering professional and safe marine pilotage service to Atlantic Canada on a self- sustaining basis. The consultative relationship that has been established with stakeholders allows the Authority to keep current with the needs, issues, and concerns of its customers.

The Authority continued its pilot boat replacement program during 2011, with two pilot boats expected to enter service in 2012. These boats are essential to ensure safety for pilots in the two key ports concerned, and in order to provide a reliable service to the ports of Saint John and Halifax.

The Canadian public and government remain vitally concerned about the environment. The Canadian marine pilotage service provides an important environment safeguard, perhaps more so today than when the Pilotage Act was proclaimed in 1972. The Authority believes that the service provided is relevant and remains a priority of government.

The Chair and Members of the Authority (Board) are appointed by Order-in-Council for terms of two to four years. The Board is composed of members with marine pilotage experience, members with shipping industry experience, and members representing the

interests of the public at large. An effort is also made to have the Board reflect the widespread geographical area within the APA jurisdiction. This cross section of industry and business knowledge, experience, business acumen, and regional perspective provides an excellent background for the Board's deliberations. The Board has created a number of committees with specific responsibilities.



The Board and Management of the Authority are pleased to present the 2012-2016 Corporate Plan.

MANDATE, MISSION, VISION

MANDATE: The mandate of the Atlantic Pilotage Authority is to establish, operate, maintain and
administer, in the interest of safety, an efficient pilotage service within the Atlantic region.

MISSION: The Authority will accomplish this by providing the necessary expertise and experience, associated with the appropriate technology, to meet the needs of the industry. The Authority is committed to maximizing the use of its resources/assets to meet the goals in a safe and environmentally responsible manner.

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VISION: To continue to provide an effective pilotage service throughout the Atlantic Region. In doing so, the Authority would maximize opportunities and benefit the various ports/districts and surrounding communities.

CORPORATE PROFILE

BACKGROUND

The Atlantic Pilotage Authority was established February 1, 1972, pursuant to the *Pilotage Act*.

The Authority is a Crown Corporation as defined by the *Financial Administration Act* (FAA) and is listed in Schedule III, Part I to that Act. The Authority is not an agent of the Crown.

The Board of the Authority consists of a part-time Chairperson and not more than six other members, all appointed by the Governor in Council.

The Chief Executive Officer has the direction and control of the day-to-day business of the Authority. The Authority is administered and controlled at its headquarters, which is located in Halifax, Nova Scotia.

The Authority has not received parliamentary appropriations since 1995 and, under provisions in the *Canada Marine Act* and *Pilotage Act*, will not be eligible for future appropriations.

POWERS

To carry out its responsibilities, the Authority has established regulations, approved by the Governor in Council pursuant to the *Pilotage Act*, in order to:

- Establish compulsory pilotage areas;
- Prescribe ships or classes of ships subject to compulsory pilotage;
- Prescribe classes of pilot licences and pilotage certificates that may be issued;

- ⇨ Prescribe pilotage charges payable to the Authority for pilotage services.

In addition, the Authority is empowered under the *Pilotage Act* to:

- ⇨ Employ such officers and employees, including licensed pilots and apprentice pilots, as are required for operations;
- ⇨ Establish internal regulations for managing its operation;
- ⇨ Purchase, lease or otherwise acquire land, building, pilot boats and other equipment
  and assets deemed necessary, and to sell any assets thus acquired;
- ⇨ Borrow, if necessary, in order to settle the Authority's expenses.

DESCRIPTION OF OPERATIONS

Since 1972, the Authority has operated, in the interest of safety, a marine pilotage service for all Canadian waters surrounding the four Atlantic Provinces and within certain waters in the Bay of Chaleur. This is the only program of business for the Authority.

The Authority provides licensed pilots to ships that enter Atlantic Canadian Ports in order to ensure that these ships travel within the pilotage area as safely as possible. The Authority also examines qualified mariners, and issues pilotage certificates to successful candidates to enable them to navigate their ships within designated compulsory areas without a licensed pilot on board. The Authority organizes its operations according to geographic location, and has designated seventeen areas as requiring compulsory pilotage, with one more area in the process of being made compulsory. The Authority also endeavors to provide pilotage service to other areas, referred to as non-compulsory areas, upon request. A complete breakdown of all revenue and costs related to the pilotage service is calculated and totaled for each port and area, and summarized for the entire operation.

Demand for the services of the Authority is determined by the shipping industry, over which the Authority has little or no control. The Authority evaluates its performance according to the achievement of a safe, efficient, and effective marine pilotage service while maintaining financial self-sufficiency. In addition, success is determined by how well the Authority adapts to changes in world trade, to the establishment of new business ventures, and to patterns that develop within the shipping industry.

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The Authority operates within the marine transportation sector. No competition exists to provide this service in compulsory pilotage areas.

The Authority's goal is to implement tariffs that are fair and reasonable, and that allow the entity to operate on a self-sustaining financial basis. The following Table reflects the annual average percentage increase in revenue derived from increased tariffs during the following periods:

Year	2011	2012	2013	2014	2015	2016
Average Percentage Increase in revenue.	2.96%	1.40%	2.20%	2.00%	2.00%	2.00%

COMPLIANCE WITH GOVERNMENT INITIATIVES

BUDGET PLAN 2010 – SPENDING FREEZE

The Authority is a "non-appropriated" or self- financing Crown Corporation. Nevertheless, in budgeting for 2012, the Authority has respected the spirit and intent of ***Budget Plan 2010*** regarding limiting operating expenditures and discretionary spending.

The administration spending budgets for the APA were deemed to be the Dispatch budget, the Administration budget, and the Training budget. The items in these budgets were broken into discretionary and non-discretionary items. The discretionary expenses, which make up the majority of the total items, were reduced by 0.3% from 2010 to 2011, and an additional 4.8% from the 2011 budget levels to the 2012 budget. These expenses are budgeted to decrease 5.1% in 2012 from the 2010 budget.

For the Administration budgets in total, including both discretionary and non-discretionary spending, budgeted expenses have been reduced by 4.1% for 2012 from 2010 and 2011 budget levels.

The individual operating budgets for each port were deemed to be operating expenses. Amortization has been excluded as capital investment was not frozen and the Authority had plans to construct two new vessels. Increases in operating expenses from the 2011 budget levels have been offset with equal or greater increases in budgeted revenues. This is in compliance with the directive on the freeze.

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BUDGET PLAN 2011 – OPERATING REVIEW

Budget 2011 announced the government's intention to undertake a one year Strategic and Operating Review (SOR) in 2011-12. There are 67 federal organizations included in the SOR, including departments, agencies, and Crown Corporations receiving appropriations from the government.

The Authority, as a non-appropriation dependant Crown corporation is not subject to this SOR, but was encouraged to adhere to the spirit and intent of the exercise by undertaking a self-review, under their Board's authority to seek operational efficiencies.

As a non-appropriated Crown corporation, the Atlantic Pilotage Authority operates under a different business model than government departments and appropriated Crown corporations. The Authority receives no appropriations from the Government and operates on a cost recovery basis. It is always the focus of the Authority to provide the most efficient pilotage service possible. This means providing the customers with the service level they demand at the lowest cost possible, while not sacrificing safety of the environment or the safety of the employees of the Authority. All of this is done while remaining financially self-sufficient by recovering all of the costs of providing the service, and retaining sufficient capital to finance future asset replacement and long-term liabilities.

Every year the Authority conducts a strategic planning review process that culminates in the development of the Corporate Plan. This process has several steps:

- The executive and management of the Authority meets to try to answer the key questions of:
    - Are we meeting the service levels required by the customers and where can we improve?
    - How can we provide this service more efficiently?
    - How can we make the management of the Authority as efficient as possible?
    - Have we the appropriate succession plans in place?
    - What are the major risks facing the Authority and how can they be mitigated?
    - What issues will be facing the Authority in five years or longer? What needs to be in our directional plan to face future challenges?

- The results of this review are then presented to the Board of the Authority where they are challenged and recommendations are accepted, rejected, or adjusted. This forms part of the Board's guidance for the development of the Authority's overall budget and operating budgets for each port.

- The operating budgets for each major port or area are subsequently presented to the customers at meetings hosted by the Authority. Customer feedback is received regarding service requirements or planned changes as well as proposed tariff levels required to provide the required service.

- This feedback is presented to the Board and the budget and corporate plan are finalized.

This year's process sought opportunities to improve the pilotage service while controlling costs where possible.

Self-Review

During the Authority's annual strategic planning sessions, the APA conducted a self-review as a non-appropriated Crown corporation as recommended, taking into consideration the review criteria for entities that are subject to the SOR. Please note the APA's observations below regarding the review criteria;

- **Operating Efficiency** – To what extent are results being achieved efficiently? Can this activity, service or program be delivered at a lower cost or through a more effective delivery instrument? How does it compare with the delivery of similar activities, services or programs in the private sector, other levels of governments, or internationally?

The Authority consults with its customers to determine the level of service required in each port. In some ports, the pattern of vessel traffic contains numerous spikes of activity, creating a need for more pilots than the overall average number of assignments may indicate. The Authority determines the staffing levels for each compulsory pilotage area based on the customer requirements and the expected activity in each port. Occasionally, if traffic levels peak too high, delays may be incurred. Staffing for these rare peaks would be too costly for the customers of the port. The Authority has been working with individual ports to deal with peak periods. For example, during the cruise ship seasons from 2008 through 2011, the Authority hired a retired pilot under a short term contract in Halifax to help cover the peak in traffic during this relatively brief period.

The Authority developed a structured methodology for handling complaints several years ago in response to the Ministerial Review of Outstanding Pilotage Issues. The mechanism is designed to be as user friendly as possible, and the goal of the Authority is

to ensure that timely feedback is provided to the complainant. The most common reason for a complaint to be submitted is a delay in an assignment. In some cases, the delay is caused by factors beyond the control of the Authority, such as weather or delays caused by the non-availability of port services such as tugs.

The Authority received a total of 47 complaints out of a total of 9,338 assignments during 2010. The remaining 99.5% of assignments were performed without receiving a complaint from the customer. All complaints received are included in the above total, including those submitted that involved delays not caused by the Authority.

The Authority's service benchmark is to provide service within one hour of the ordered time on 99.0% of assignments (excluding delays caused by factors beyond the Authority's control). In 2010, this benchmark was surpassed with 99.25% of assignments being on time (99.35% in 2009).

- **Internal Services** – Are internal services (e.g., communications, human resource management, financial management, etc.) as efficient as possible? Do they deliver results and value for money? Have standard business processes been adopted? Can improvements be made to reduce any overlap and duplication?

As a non-appropriated Crown corporation, the Authority has adopted standard business processes. The only exception to standard business practices occurs because of compliance to government acts and legislation, such as requirements stipulated by the *Pilotage Act* or the *Financial Administration Act*.

The APA strives to maintain internal services in the most efficient manner possible. The administration staff of the Authority consists of ten people, three of whom are the executive officers. There is no overlap or duplication. The dispatching centre is manned with six individuals, one manager and five dispatchers, who provide service 24 hours per day 365 days per year. Casual employees are brought in temporarily to cover for shortages when required.

This streamlined structure applies to pilot staffing as well. The number of pilots in each region is kept to a minimal level while still satisfying the requirements of the customers. It would be far too expensive to staff for peak periods, so the Authority relies on pilots working overtime to cover these peaks. This is far less costly for the customers, but

requires significantly more attention by management and dispatchers, as well as communication with customers, to provide pilotage without service delays.

- **Effectiveness** – To what extent is this program, activity, or service achieving the expected results for which it was designed?

2010 Shipping Incidents

During 2010, there were 8 shipping incidents reported by the Authority's pilots. All incidents were minor in nature, and are categorized below:

Type of Incident	2010	2009
Contact with wharf	7	5
Contact with port equipment	0	3
Contact with sea bed	0	1
Other	1	0
Year end total	**8**	**9**

The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region. The total number of occurrences indicates 99.91% of the 9,338 pilotage assignments were incident free.

- **Affordability** – Is the program, activity, or service a government priority and is it affordable during a period of fiscal restraint?

The entire cost of the pilotage operation in Atlantic Canada is paid for by the users of the service. This is truly a user pay service, and one in which the user has a great deal of input into the service being delivered. The government does not provide appropriations to the APA, and section 36.01 of the *Pilotage Act* contains the following provision:

"*No payment to an Authority may be made under an appropriation by Parliament to enable the Authority to discharge an obligation or liability. This section applies notwithstanding any authority given under any other Act, other than an authority under the Emergencies Act or any other Act in respect of emergencies.*"

The service provided by the Authority is not related to the issue of fiscal restraint with respect to government spending.

- **Relevance and Need** – To what extent is there still a need for this program, activity, or service? Is it still relevant? Is it still a priority of government?

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The Authority's mandate is to operate an efficient pilotage service in the interest of safety. There may be many interpretations of safety, but to the Authority it relates to safety of the ocean, harbour, and river environments within its mandated areas; the safety of coastal communities that may be adversely affected by marine disasters or loss of commercial activity; the safety of mariners, both those employed by the Authority and those aboard vessels calling in Atlantic ports; and the safeguarding of the business environment that relies on the shipping industry. The marine shipping industry produces the smallest ecological footprint of any mode of transportation, and the Authority is making an important contribution to maintaining the viability of this sector.

The Canadian public and government remain vitally concerned about the environment. The Canadian marine pilotage service provides an important environment safeguard, perhaps more so today than when the Pilotage Act was proclaimed in 1972. The Authority believes that the service provided is relevant and remains a priority of government.

- **Federal Role** – To what extent is this program, activity, or service consistent with the federal government's roles and responsibilities? Are other levels of government, the private sector, or the not-for-profit sector better positioned to deliver the program, activity or service in this area?

The APA is responsible for 17 compulsory ports located throughout the Atlantic region. The Authority continues to monitor and assess all areas within its mandate to determine any change in factors and circumstances that may have an impact on safety. Local knowledge is a vital part of marine pilotage, both for the pilot conducting a vessel into a port and for the Authority in assessing the safety impacts for the region.

The geographical region assigned to the APA crosses provincial, municipal, and port boundaries. It would not be practical for Provincial or port specific entities to provide this service. For a number of ports under the APA's domain, there are no port corporations or significant infrastructure available to provide oversight to a pilotage service.

If a private sector enterprise were delivering the service, there could be commercial pressure to engage in practices that may not be in the public interest. The APA must act in a fair and reasonable manner, but is in a better position to withstand such commercial pressure and act in the public interest. The licensing of pilots and certification of mariners is a regulatory function that is best handled by an independent party such as the APA, rather than by private sector interests that may be in a conflict of interest due to competitive interests.

- **Organizational Role** – To what extent does this program, activity or service have to be delivered by the organization? Would greater efficiencies be achieved if another department or agency, government service provider, or the private sector delivered the program, activity or service? Will net savings be achieved? If proposals include transferring responsibilities within the federal government, have affected organizations been consulted, and do they agree?

The Atlantic Pilotage Authority provides services throughout four provinces. The management team of the Authority is in frequent contact with customers in these ports to provide the best service possible. This local consultation has resulted in an harmonious working relationship between the Authority and its stakeholders. This has allowed the APA to operate as a financially self-sufficient Crown that has not had a CTA review of proposed tariff regulations for over a decade. This relationship and the ability of the Authority to provide the service required would be compromised if the relationship between the Authority and its customers was not maintained

The Authority strives to keep its administrative overhead at the lowest possible level, and operates the service in a very cost-efficient manner.

- **Capital Effectiveness** – Is the capital expenditure achieving value for money? Are processes and requirements overbuilt? Is the asset tied to the core mandate of the department? Is the organization better served to devolve or sell the asset? Are there opportunities to partner with the private sector to build, recapitalize, or manage the asset?

The Authority's first priority in deciding whether capital expenditures are required is to determine whether a service or facility can be provided by the private sector on a cost effective basis. If this is not possible, capital acquisitions are considered.

The Authority's capital expenditures are primarily for pilot vessels, wharves, and structures. These items are essential to offering the service in the ports in which the investments are made. The Authority tends to own pilot boats, for example, in major ports that require faster and more complex vessels to deliver the service. These vessels are purpose built as pilot boats with limited utility for any other purpose, and would require a significant investment on the part of the private sector. Due to the length of time a contractor would need to recover the cost of these special purpose vessels, few are willing to make the investment and provide the vessel at a competitive price in the major ports.

These assets are built by the private sector. In 2007, a shipyard in Nova Scotia completed two pilot boats for use in Placentia Bay. This contract had been awarded after a competition that included several shipyards in Canada and the USA. In 2010, the

Authority conducted a rigorous and transparent selection process utilizing the Merx electronic tendering website, and awarded the contract for the construction of two new pilot boats for the ports of Halifax and Saint John to the lowest bidder. These boats are scheduled to enter service in 2012.

The APA has also partnered with the private sector to manage assets. The pilot boats in Sydney and Placentia Bay are owned by the Authority, but the management and manning of the vessels is contracted to private sector entities. In Saint John, the management of the pilot boats is also contracted to the private sector.

As noted previously, the APA has undertaken annual self-review as part of its strategic planning regime. Under the direction of the Board, the Authority will continue this practice in an effort to identify service improvements and achieve greater efficiencies. This ongoing process has resulted in a very efficient Crown Corporation that delivers the required level of service at the lowest cost to industry as possible, while protecting the interest of the Canadian public and communities.

RISK MANAGEMENT

Pilotage Risk Management Methodology

The APA has been a leader among Pilotage Authorities in conducting Pilotage Risk Management Methodology (PRMM) studies. The Authority completed four PRMM analyses in recent years on the following subjects:

- on vessel size and types subject to compulsory pilotage;
- on the Miramichi River Compulsory Pilotage Area to determine if it should remain compulsory;
- on the approaches to Voisey's Bay to determine whether compulsory pilotage was required;
- and on the St. Croix River and Port of Bayside to determine whether compulsory pilotage was required.

In 2010, a high level preliminary review was conducted on non-compulsory ports in Nova Scotia to determine if there was a requirement for a full PRMM review in those ports. Four ports were identified for further attention. In 2011, a similar review was held in New Brunswick. Following the recommendation in this report, a PRMM review is being conducted for the port of Belledune. This report is expected to be received by the Authority in the latter part of 2011.

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Enterprise Risk Management Framework

The Authority has established an Enterprise Risk Management framework to identify and mitigate risks to the corporation. Risks were initially identified with the assistance of external consultants through a thorough analysis of the enterprise's environment. Any existing mitigation to help reduce the likelihood or impact of the risk was considered, and additional mitigation was identified and where practicable, implemented for each risk. This analysis initially identified 29 risks, which were reduced to 23 risk categories through refining the definitions and combining like risks. The risks were ranked after a thorough review by the Board and Management of the Authority. It is understood that the risk categories are not static, and a regular review is required. The review may identify new risks, may determine that risks have decreased through sufficient mitigation to reduce their likelihood or impact, or may determine that the risk level has increased due to changes in circumstances.

The risk categories fall into one of three categories. High risk items are identified in red, medium risks are in blue, and low risks are in yellow. While it is important to be cognizant of all risk factors, the high risk categories demand the most priority, followed by the medium risk categories. The following risk categories were identified:

APA Risk Categories- 2011 Ranking

1	Injury to pilot/crew member while transferring
2	Safety Compromised due to Pilot Fatigue/Under the Influence
3	External Economic Risk
4	Risk of Accident Caused by Human Error
5	Interruption of Service due to Breakdown in Labour Relations
6	Risk of being unable to Attract and Retain Pilots to meet Demand
7	Operating costs exceeding amount budgeted when tariffs are determined
8	Safety Compromised due to Boat Crew Fatigue/Under the Influence
9	Loss of Launch Services causing Major Interruption of Service
10	Certificate Holders Evaluations
11	Risk that Employees are exposed to illness or injury in the workplace
12	APA Involvement in Non Comp Ports
13	Loss or Misuse of Information, Data, or Other Assets
14	Pilot Vessels not meeting TC Inspections
15	Safety Compromised due to Inappropriate Pilotage Area Designation
16	Governance/Organizational Structure
17	Fraud
18	Succession Planning
19	Management Information
20	Customer Satisfaction
21	Safety/Service Compromised due to Interruption to the Dispatch Operation
22	Business Continuity
23	Unable to Attract and Retain Adequate and Trained Relief Pilot Boat Crew

The Authority has developed mitigation strategies for all twenty three identified risks.

ESTABLISHMENT OF WEATHER BUOYS IN ATLANTIC REGION

The APA has been a strong supporter of a joint initiative to establish weather buoys in key areas in the Atlantic region. This joint initiative, known as SmartATLANTIC, is spearheaded by the Canadian Marine Pilots Association and has the support of the APA, the Halifax Port Authority, the Saint John Port Authority, the Strait of Canso Superport Authority, Canaport LNG, and Canaport Limited. It has been endorsed by the Shipping Federation of Canada and the Canadian Shipowners' Association.

This initiative proposes that weather buoys be established inshore at Halifax, Saint John, and the Strait of Canso. In addition to providing weather and wind information, these buoys would provide highly valuable real-time directional wave information that is currently not available. This information would help mitigate risk by supporting safe navigation, safety of life at sea, protection of the environment, and fundamental research.

This initiative would benefit many public sector users such as Environment Canada, Canadian Coast Guard, Department of Fisheries and Oceans, Transport Canada, Canadian Hydrographic Service, the Port Authorities, and the APA. It would also benefit the private sector and the public at large through increasing the safety margin for aquaculture and fishers, recreational boaters, tourism operators, shipping lines, port terminal operators, and infrastructure and land use planners.

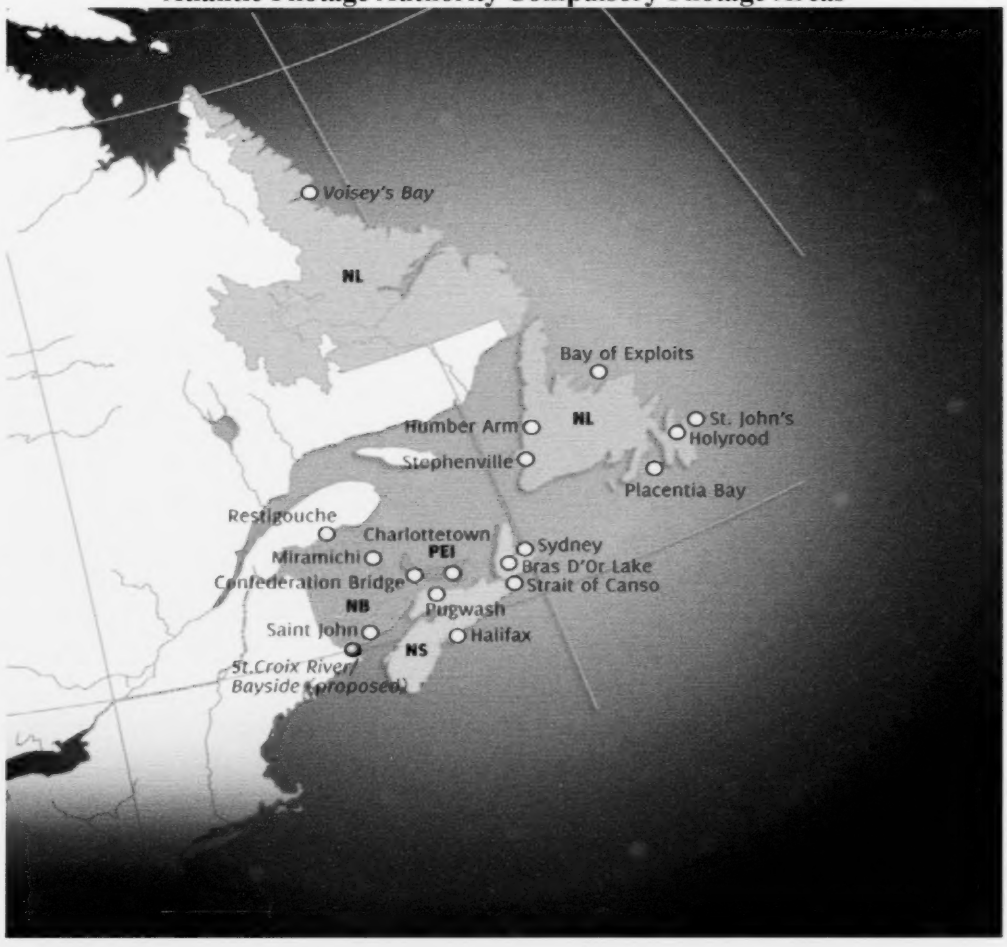
The APA believes that this initiative is vitally important in reducing risk to the APA pilots and boat crews, and would be an essential factor in improving safety of the marine environment for all those who derive their living or pursue recreational interests in these areas. The Authority would strongly encourage Transport Canada to support the SmartATLANTIC Weather buoy initiative in conjunction with Environment Canada and other parties that will benefit..

REVENUE AND TRAFFIC PATTERNS

The Authority provides pilotage service in the following compulsory pilotage areas: Halifax, Sydney, Bras d'Or, Canso, and Pugwash in Nova Scotia; Saint John, Miramichi, and Restigouche in New Brunswick; St. John's, Holyrood, Placentia Bay, Humber Arm, Stephenville, Bay of Exploits, and Voisey's Bay in Newfoundland and Labrador; Charlottetown and Confederation Bridge in Prince Edward Island. Pilotage service is provided to many non-compulsory ports upon demand. Total number of estimated

assignments for 2011 is expected to be 8,997. The St. Croix River area remains in the regulatory process and has not been included in the projections. This area will not have APA employee pilots or APA pilot boats, nor is it expected to have a level of activity that will have any significant impact on revenues. The compulsory areas are indicated on the following map.

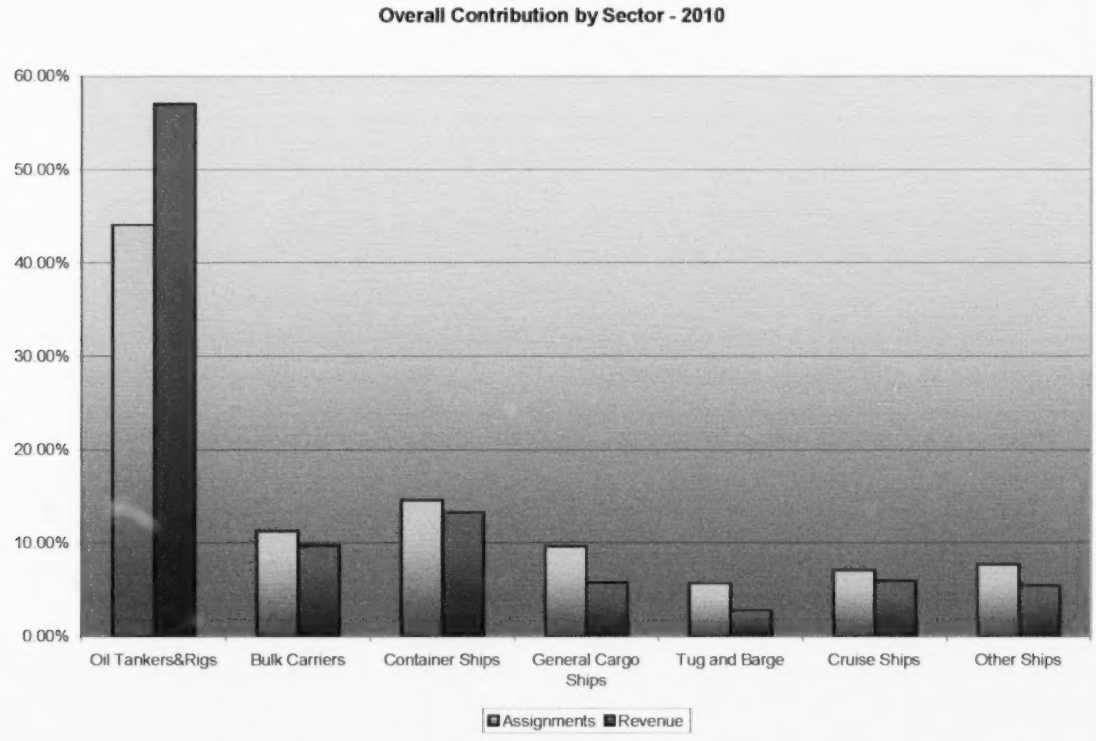
Atlantic Pilotage Authority Compulsory Pilotage Areas



Of the 17 compulsory areas, there are four major ports that contribute approximately 74% of the Authority's assignments, and approximately 80% of revenues. These ports are Placentia Bay, NL, Halifax, NS, Strait of Canso, NS, and Saint John, NB. Much of the pilotage activity in the Atlantic Region is driven by the oil industry, with oil tankers being primary contributors in Saint John, Strait of Canso, and Placentia Bay. Container

ships are the primary contributor to the port of Halifax with over 88% of the Authority's container ship traffic handled by that port.

The oil industry accounts for approximately 45% of the Authority's overall assignments, and contributes 57% of the overall revenue, based on current trends. Cruise ships, while a high profile part of the industry, account for approximately 7% of assignments and 6% of revenues. The following chart indicates the overall contribution by different sectors.



Foreign flagged vessels provide the great majority of the Authority's business. This fact has become even more pronounced after offshore supply vessels were exempted in 2006, as these vessels are almost entirely Canadian flagged ships. The current trend is for foreign vessels to represent approximately 78% of assignments, and approximately 77% of revenue.

Atlantic Pilotage Authority
Summary of 2012-2016 Corporate Plan

Dispatch

The Authority provides dispatching services throughout its region from a dispatch centre located at its head office. The total cost of the dispatch operation in 2012 will be approximately $543k and this amount has been included in the budget. The dispatching service provides significant information and added value to pilots, customers, port authorities, and management through controlled access web pages established for each group. The web pages are continuously updated from the Authority's Dispatch and Billing System as the dispatcher enters data. Customers and pilots are able to contact dispatch by telephone, e-mail, facsimile, VHF radio, and telex. As the service evolves, it continues to increase the efficiency of the Authority's operations while adding value for customers and employees. The APA has developed the capability to monitor vessel movements in the major ports and their approaches through a computer program utilizing the Automatic Identification System (AIS). The AIS is required on all commercial vessels, and the APA has also installed transmitters and receivers on its pilot boats.

Pilot Boat Costs

The APA has three models for pilot boat operations. In most ports, a contractor provides both the boat and the crew. In two of the major ports, Halifax and Saint John, the Authority owns and operates pilot boats, with the crew being employees of the APA. In Placentia Bay and Sydney, the Authority owns the vessels, with the manning contracted out to a local company. Please see Appendix B for more information on APA owned pilot boats.

The Authority prefers that all pilot boat contracts be paid on a per trip basis. This avoids a situation where a guaranteed annual amount of money is paid that has no relation to the number of assignments and revenue in that port. This principle is followed with a few minor exceptions to address local issues in a port.

Pilot boat costs are made up of those incurred by the Authority in operating its own vessels, those paid to a contractor to provide a pilot boat service, and fees paid on an ad hoc basis to local entrepreneurs in minor non-compulsory ports where it is not feasible to have a formal pilot boat contract. The Authority attempts to use its own boats in the most efficient manner possible and to control costs where possible. The costs in ports in which a private contractor provides service will fluctuate based on the volume of traffic in the port.

Atlantic Pilotage Authority
Summary of 2012-2016 Corporate Plan

HUMAN RESOURCES

The Authority has seventy-five full time employees: forty-five pilots, fourteen pilot boat crew members, six dispatch personnel, and ten management and administrative personnel.

The Authority employs highly skilled and qualified pilots. Professional development is emphasized, and the Authority makes a significant financial commitment to ensure that the best available training is provided. The pilots are supported by competent pilot boat crews and dispatchers who work as a team to provide the best possible service to the customer. The Authority employs professional and proficient management and support staff to administer the operations.

The licensed pilots and the pilot boat crews are trained to conduct a safe marine pilotage service. However, the Authority constantly monitors the requirements for each port. Pilotage and the marine industry are undergoing rapid technological change. The Authority continuously evaluates and modifies training programs to deal with the rapidly evolving technology.

STATEMENT OF MANPOWER RESOURCES
2009-2016

	ACTUAL 2009	ACTUAL 2010	OUTLOOK 2011	BUDGET 2012	PLAN 2013	2014	2015	2016
ADMINISTRATION								
EXECUTIVE OFFICERS	3	3	3	3	3	3	3	3
SUPPORT	7	7	7	7	7	7	7	7
	10	10	10	10	10	10	10	10
OPERATIONS								
PILOTS	45	46	45	44	45	45	45	45
PILOT BOAT CREWS	14	14	14	14	14	14	14	14
DISPATCHERS	6	6	6	6	6	6	6	6
ENTREPRENEURIAL PILOTS	13	13	13	13	13	13	13	13
	78	79	78	77	78	78	78	78
TOTAL MANPOWER RESOURCES	**88**	**89**	**88**	**87**	**88**	**88**	**88**	**88**

The Executive Officers include the Chief Executive Officer, the Chief Financial Officer, and the Director of Operations. Support staff includes management, clerical, and staff positions.

Under Operations, "Pilots" and "Pilot Boat Crews" refer to employees of the APA. Entrepreneurial Pilots are not employees of the APA, and derive their income from receiving a share of the tariff levied for an assignment. Ten of these pilots work in the compulsory areas of Pugwash, Miramichi, Charlottetown, Confederation Bridge, and Voisey's Bay. Three work in non-compulsory areas such as Belledune and Caraquet. In 2011, the pilot strength in Eastern Newfoundland was reduced from 12 to 11 through attrition. For 2012, due to the reduction of traffic in Restigouche, NB, the employee pilot in that area will be replaced by a contract pilot. The contract pilot that currently services Belledune is expected to also provide pilotage at the compulsory port of Restigouche. The contract pilot will be paid for each pilotage assignment rather than be on salary. Some employee pilots also perform non-compulsory assignments during their off duty time in numerous ports.

Dispatchers are employees of the Authority who work out of the Dispatch Centre located in the Authority's head office. The Operations Manager, who has the prime responsibility of overseeing dispatch operations, is also included in the six positions indicated here.

ACCOUNTING POLICY CHANGE

As a Government Business Entity, the Authority has complied with the direction provided by the Accounting Standards Board in implementing International Financial Reporting Standards (IFRS) as at January 1, 2011.

The applicable IFRS Standards have been analyzed and elections made. It was determined that the only significant changes for the Authority would be in the valuation and amortization of the fixed assets - the pilot launches, and the valuation of future severance benefits. The Authority completed its revaluation of the fixed assets and had an actuarial assessment of the severance benefits.

The Authority implemented new accounting software in 2011. During the implementation of this new system the chart of accounts and statistical fields were changed to accommodate information needed for IFRS financial reporting and disclosures.

The APA elected to use historical cost to value its assets under IFRS. Under IFRS, capital assets are broken into their largest components and the components are amortized over their useful lives. Records were available on each major asset from the time of purchase meaning there was no need to use market value as deemed cost, even if it was available. The Authority reconstructed the asset values based on previous capital spending by the major components and applied the new amortization rates for each of these major components to determine the adjusted asset values. At January 1, 2011 the asset accounts

were written down by $1.038 million to adjust the balances to IFRS with the offsetting entry to equity.

Under the IFRS requirements, the Authority was required to change the method used for valuating employee severance benefits. Actuarial valuation was required to adjust for a change in the discount rate from the Canadian bond rates the Authority was using under Canadian GAAP to market bond rates stipulated by IFRS. The present value of the liability was adjusted effective January 1, 2011 with a recovery of $174 thousand showing in liabilities with the offset to equity.

The net effect of the IFRS transition was a reduction in the Authority's retained earnings of $864 thousand.

Statement of Operations
Years Ended December 31
(000's)

Due to the changes in Accounting Standards, the Outlook for 2011 and the Budgeting for 2012-2016 have been presented under IFRS. The 2010 comparison is under Canadian GAAP.

	CDN GAAP	IFRS					
	ACTUAL	OUTLOOK	BUDGET	PLAN			
	2010	2011	2012	2013	2014	2015	2016
INCOME							
PILOTAGE CHARGES	$ 21,070	$ 21,605	$ 22,181	$ 22,796	$ 23,297	$ 23,763	$ 24,238
NEW PILOT BOAT SURCHARGE	365	355	-	-	-	-	-
INTEREST & OTHERS	149	81	74	74	75	76	78
TOTAL INCOME	21,584	22,041	22,255	22,870	23,372	23,839	24,316
EXPENSES							
PILOTS FEES, SALARIES, AND BENEFITS	9,298	9,634	9,732	9,926	10,122	10,375	10,635
PILOT BOATS	5,512	5,788	6,226	6,294	6,454	6,583	6,715
STAFF SALARIES AND BENEFITS	1,503	1,531	1,519	1,560	1,602	1,642	1,683
TRANSPORTATION	642	645	674	694	698	715	733
PROFESSIONAL AND SPECIAL SERVICES	449	465	423	424	425	434	443
TRAINING	237	235	161	240	240	244	249
RENTALS	266	281	301	303	305	311	317
COMMUNICATION	126	126	127	127	129	131	134
UTILITIES, MATERIALS, AND SUPPLIES	383	355	432	374	376	383	391
AMORTIZATION	593	900	1,001	1,191	1,191	1,191	1,190
FINANCING COSTS	199	188	266	324	302	279	256
TOTAL EXPENSES	19,208	20,148	20,862	21,457	21,844	22,288	22,746
NET INCOME	$ 2,376	$ 1,893	$ 1,393	$ 1,413	$ 1,528	$ 1,551	$ 1,570

Atlantic Pilotage Authority
Summary of 2012-2016 Corporate Plan

Balance Sheet
Years Ended December 31
(000's)

Due to the changes in Accounting Standards, the Outlook for 2011 and the Budgeting for 2012-2016 have been presented under IFRS. The 2010 comparison is under Canadian GAAP. The adjustments required to transition to IFRS are included in the IFRS Adjust column.

	CDN GAAP		IFRS						
	ACTUAL 2010	IFRS ADJUST	Actual 2010 RESTATED	OUTLOOK 2011	BUDGET 2012	PLAN 2013	2014	2015	2016
ASSETS									
CURRENT									
CASH	$ 3,678	$ -	$ 3,678	$ 3,683	$ 6,088	$ 5,672	$ 6,071	$ 6,494	$ 5,041
ACCOUNTS RECEIVABLE	2,649	-	2,649	2,750	2,675	2,725	2,775	2,800	2,790
PREPAID EXPENSES	61	-	61	75	85	87	87	90	90
	6,388	-	6,388	6,508	8,848	8,484	8,933	9,384	7,921
INVESTMENTS	-			-	-	1,000	2,000	-	-
FIXED									
CAPITAL AT COST	12,890	(935)	11,955	14,796	18,789	20,009	20,859	24,609	28,359
LESS ACCUMULATED AMORTIZATION	4,984	103	5,087	5,987	6,988	8,179	9,370	10,561	11,751
	7,906	(1,038)	6,868	8,809	11,801	11,830	11,489	14,048	16,608
	$ 14,294	$ (1,038)	$ 13,256	$ 15,317	$ 20,649	$ 21,314	$ 22,422	$ 23,432	$ 24,529
LIABILITIES									
CURRENT									
ACCOUNTS PAYABLE	$ 1,753	$ -	$ 1,753	$ 2,000	$ 2,300	$ 1,950	$ 1,925	$ 1,825	$ 1,800
CURRENT PORTION OF BANK LOANS	239	-	239	227	355	463	485	506	533
TERMINATION BENEFITS	-	-	-	35	150	90	75	110	100
	1,992	-	1,992	2,262	2,805	2,503	2,485	2,441	2,433
LONG TERM									
BANK LOANS	3,589	-	3,589	3,374	6,891	6,320	5,813	5,286	4,726
TERMINATION BENEFITS	1,496	(174)	1,322	1,435	1,314	1,439	1,544	1,574	1,669
	5,085	(174)	4,911	4,809	8,205	7,759	7,357	6,860	6,395
TOTAL LIABILITIES	7,077	(174)	6,903	7,071	11,010	10,262	9,842	9,301	8,828
CONTRIBUTED CAPITAL AND EQUITY									
CONTRIBUTED CAPITAL	2,305	-	2,305	2,305	2,305	2,305	2,305	2,305	2,305
EQUITY (DEFICIT)	4,912	(864)	4,048	5,941	7,334	8,747	10,275	11,826	13,396
	7,217	(864)	6,353	8,246	9,639	11,052	12,580	14,131	15,701
	$ 14,294	$ (1,038)	$ 13,256	$ 15,317	$ 20,649	$ 21,314	$ 22,422	$ 23,432	$ 24,529

Atlantic Pilotage Authority
Summary of 2012-2016 Corporate Plan

Statement of Changes
Years Ended December 31
(000's)

	CDN GAAP ACTUAL 2010	OUTLOOK 2011	BUDGET 2012	IFRS PLAN 2013	2014	2015	2016
OPERATING ACTIVITIES							
CASH PROVIDED BY (USED FOR) OPERATIONS							
NET PROFIT (LOSS) FOR YEAR	$ 2,376	$ 1,893	$ 1,393	$ 1,413	$ 1,528	$ 1,551	$ 1,570
ITEMS NOT REQUIRING CASH							
AMORTIZATION	593	900	1,001	1,191	1,191	1,191	1,190
ASSET WRITE OFF	39	-	-	-	-	-	-
INCREASE (DECREASE) IN EMPLOYEE TERMINATION BENEFITS- SEVERANCE	271	183	144	155	165	175	185
	3,279	2,976	2,538	2,759	2,884	2,917	2,945
CASH PROVIDED BY (USED FOR) NON-CASH WORKING CAPITAL	346	132	365	(402)	(75)	(128)	(15)
EMPLOYEE TERMINATION BENEFIT PAYMENTS	(35)	(35)	(150)	(90)	(75)	(110)	(100)
CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,590	$ 3,073	$ 2,753	$ 2,267	$ 2,734	$ 2,679	$ 2,830
FINANCING ACTIVITIES							
CASH PROVIDED BY FINANCING LOAN RECEIVED ACTIVITIES		-	4,000			-	-
LOAN PAYMENTS	(228)	(227)	(355)	(463)	(485)	(506)	(533)
	(228)	(227)	3,645	(463)	(485)	(506)	(533)
INVESTING ACTIVITIES							
(INCREASE) DECREASE IN INVESTMENTS	-	-	-	(1,000)	(1,000)	2,000	-
ADDITIONS TO CAPITAL ASSETS	(455)	(2,841)	(3,993)	(1,220)	(850)	(3,750)	(3,750)
CASH USED FOR INVESTING ACTIVITIES	(455)	(2,841)	(3,993)	(2,220)	(1,850)	(1,750)	(3,750)
INCREASE IN CASH AND SHORT TERM INVESTMENT DURING THE YEAR	$ 2,907	$ 5	$ 2,405	$ (416)	$ 399	$ 423	$ (1,453)
CASH, BEGINNING OF YEAR	771	3,678	3,683	6,088	5,672	6,071	6,494
CASH, END OF YEAR	$ 3,678	$ 3,683	$ 6,088	$ 5,672	$ 6,071	$ 6,494	$ 5,041

Atlantic Pilotage Authority
Summary of 2012-2016 Corporate Plan

Capital Expenditure Comparison
(000's)

	ACTUAL	OUTLOOK	BUDGET	PLAN			
	2010	2011	2012	2013	2014	2015	2016
PILOT BOATS							
CONSTRUCTION OR PURCHASE OF NEW BOAT	172	2,209	3,272	200	-	2,750	2,750
PILOT BOAT REFIT	8	189	481	850	650	800	800
PILOT BOAT EQUIPMENT	-	188	75	100	100	100	100
WHARVES AND STRUCTURES	195	150	75	20	30	30	30
LEASEHOLD IMPROVEMENTS	13	-	20	10	10	10	10
COMPUTER AND OFFICE EQUIPMENT	18	28	15	20	20	20	20
SOFTWARE FOR COMPUTER PROGRAMS	49	77	55	20	40	40	40
TOTAL	$ 455	$ 2,841	$ 3,993	$ 1,220	$ 850	$ 3,750	$ 3,750

Capital Expenditure Comparison Explanation

The Authority expects completion of the new pilot boat to take place in 2012 with some smaller items and additions to be made in 2013. The timing of these costs is an estimate and will depend on many factors that will affect the progress of construction. This plan includes a preliminary timeline for adding two more new vessels, one each for Halifax and Saint John in 2015/2016. The customers in both ports have expressed the desire to have two newer boats for each port and due to the age of the backup boats, there is a legitimate need to replace them as well. This timeline for more new vessels will be based on cash flows as the Authority would plan to self finance these vessels if possible.

Pilot boat refits and equipment are expected to increase significantly over this planning period as equipment on the Placentia Bay boats will be reaching the end of its useful life. This includes four engines that cost over $100 thousand each to rebuild or replace. Transport Canada inspections will also be due on all APA boats over this period.

The other capital items are expected to remain fairly consistent with some increases as aging wharves and equipment will have to be repaired or replaced.